Statement of
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Farm Credit Administration Board
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Good morning Chairman Reyna and board member Jorgensen. It is a pleasure to be here with you this morning. I am Ken Auer, president of The Farm Credit Council. The Farm Credit Council is the national trade association representing the governmental affairs interests of the institutions of the Farm Credit System.

Thank you for holding these hearings to help clarify the current status of the OFI program and to explore additional opportunities for agriculture and rural areas to obtain financing through the Farm Credit System. This hearing serves to highlight one of the major features that has made the Farm Credit System such an important factor in the agricultural credit markets – that being our access to both national and international money markets. Farm Credit uses that access to bring funds to rural areas for agriculture, rural housing, rural electrification, telecommunications, water and sewer, farm-related businesses and cooperatives. These are funds that are brought into the rural community and serve that community by promoting business development and creating jobs.

Farm Credit has demonstrated consistently that it can deliver credit directly to its members in a very cost-effective, efficient manner. Through local associations and CoBank, Farm Credit institutions bring competition to local credit markets for the types of loans they are eligible to make. We know this delivery mechanism works and works well.

Not as well known to the general public is the other side of Farm Credit – where Farm Credit institutions work in partnership with other financial institutions to make credit available outside of the System's direct delivery vehicles. The mechanisms for doing this are several – through the direct advancement of funds to an OFI, through participation in loans that a System institution could make directly, or through the participation in loans made to an entity that is similar to one that is currently eligible to borrow directly from Farm Credit. In addition, Farm Credit has the authority to serve as a pooler for Farmer Mac – pooling loans made by other entities and selling those pools to Farmer Mac. Each of these authorities offers non-System institutions access to System funds to make credit available to eligible entities.

The data we have put together shows that these authorities are being utilized to various degrees. At the end of 2000, about $296 million in loans were outstanding to OFIs. This represents a modest increase over the $231 million that was outstanding five years ago at the end of 1995. The number of OFIs over that period, while fluctuating in number amongst the banks, in total has stayed constant at 23.

I will readily admit that I am no expert on the intricacies of the OFI regulations. You have other witnesses here that can respond to specific questions about the practical application of those regulations, and you have received plenty of written commentary on this program. However, I believe that I am safe in saying that there are no miracle cures to the lackluster performance of the existing OFI program. It is especially important to recognize that a portion of the problem may be a lack of enthusiasm out there on the part of financial institutions to establish or build on a relationship with farmers and risk capital in lending to agriculture, especially at a time when commodity prices continue to skirt with or fall below record low price levels.

When it comes to loan participations, much more is being done with non-System lenders. As of the end of 2000, more than $1.8 billion in loan participations were outstanding that were originated by non-System lenders. Every Farm Credit district was involved, and in all cases both System banks and associations were active participants.

In addition to that $1.8 billion, System institutions had participated in another $1.6 billion in loans under the similar entity authority. This authority allows System institutions to participate in loans originated by non-System institutions even when those loans could not be directly originated by the System institution because the entity would be ineligible for a direct loan from the System. These participations represent a true partnership that ultimately provides benefits to the rural areas of our country. Through this authority, Farm Credit is providing a direct benefit to the liquidity of those lenders willing to participate in loans with the System. And there in lies the rub for all of these programs – they require a willing partner.

You had asked that we comment to you on changes that could be made that would increase the flow of funds. About a year ago, FCA proposed such a change that we strongly support. The proposal, that was published in the Federal Register on July 26, 2000, suggested revisions to existing regulations on loan participations. It would give all System institutions greater flexibility to purchase loan participations from non-System lenders. I want to quote from your document if I might regarding the benefits that would likely flow from the proposal:

- “Lending limit relief for the seller,
- Increased liquidity for the seller,
- Reduced concentration risk for both the buyer and seller through greater portfolio diversification,
- Increased fee income opportunities,
- Access to external credit expertise and new and diverse markets,
- Improved capital adequacy management for both the buyer and the seller, and
- Better use of the buyer’s excess funds.”

We believed then as we continue to believe today that this proposal has a lot of merit. The comment period closed at the end of last September. We would urge that if you want to provide greater flexibility and opportunity for non-System institutions to access benefits from Farm Credit, finalizing this rule would be a good, quick place to start.

If I could, I would like to quote one other section of the notice regarding the proposed changes to regulations on loan participations. Included in the Federal Register notice under the heading of "revised definitions of participations" was the following statement, "The Act does not provide a specific definition of a loan participation other than that contained in section 3.1(11)(B)(iv), concerning "similar entity" participations. Nevertheless, we previously provided more narrow regulatory definitions than required by statute."

We were pleased to read this frank admission on the part of the Agency. We were even more pleased that you proposed to do something about it. What we are talking about here today is flexibility – flexibility for institutions to access the Farm Credit System, flexibility for Farm Credit institutions to serve customers, whether those customers take the form of a farmer or of a non-System institution interested in serving agriculture, and we are talking about the flexibility that already is built into the Farm Credit Act -- flexibility that the Congress already has urged FCA to seize and implement.

The Farm Credit System Reform Act of 1996 contains some very specific language that we have corresponded with you about in the past. Section 212. (b) of that Act reads as follows, "The Farm Credit Administration shall continue the comprehensive review of regulations governing the Farm Credit System to identify and eliminate, consistent with law, safety, and soundness, all regulations that are unnecessary, unduly burdensome or costly, or not based on law." That direction is quite clear. To me the operative words jump out at you – identify, eliminate and all.

We have a strong view that you have an obligation to act in accordance with the direction Congress has given you whether it be in removing impediments for OFIs to access the System, for non-System lenders to sell participations to the System, or for farmers and ranchers to gain access to any System institution from which they may wish to obtain financing. Other opportunities are present in the Act. For instance, it has been suggested that current interpretations of the existing investment authorities of the System are limiting institutions' ability to fully serve their customers.

We appreciate what you are doing here this morning because it is within the spirit of the specific direction of Congress that you are approaching the subject at hand – discovering how your regulations prevent the System from fulfilling its mission of improving the income and well-being of American farmers and ranchers by providing through a cooperative, farmer-owned System credit and closely related services to farmers, their cooperatives and farm-related businesses.

We look forward to working with you. I would be happy to respond to any questions you might have.